of services—again the relatively older particularly in the case of medical services—may find themselves more adversely affected than would be indicated by the aggregate price increases.

Alternate Tax and Fiscal Policies

On account of the overall progressive tax structure, Federal revenues in the coming decade are likely to be rising faster than the GNP. A staff memorandum to the committee in 1961 analyzed in detail the relationship between Federal receipts and expenditures on the one hand, and the business cycle and economic growth on the other.[16] That study indicated that Federal tax receipts fluctuated much more violently than national income or GNP, reflecting the fact that the marginal rate of tax on changes in incomes or profits is substantially larger than the average rate. After all, tax rate structures are progressive and some incomes are not taxable. It appears that, in general, as the economy grows along the full employment or potential trend, Federal revenues rise by about one-fourth of the year-to-year rise in potential GNP in current prices. On the other hand, the average share of Federal revenues in the cyclical departures of the actual GNP from the full employment or potential trend has been over one-third, or about 36 percent in the period 1954–61.

According to several recent studies, such revenues are also likely to be rising more rapidly than the "normal" or trend increase in Federal expenditures.[17] However, the recent acceleration of military costs occasioned by events in Vietnam has resulted in an acceleration in Federal spending which, at least temporarily, eliminates the potential Federal surpluses envisioned in these earlier studies. In the period after Vietnam, when improvements in the international environment permit the reduction of U.S. military outlays, the Nation faces large and growing high employment budget surpluses, actions would need to be considered to reduce the overall effective Federal tax rate as necessary (or to increase expenditures further).

The major problem involved here would be to identify initial policies which would be sufficiently prompt and effective to prevent serious unemployment and excess industrial capacity from developing. Such negative influences, if unchecked, could accelerate into a major recession.

In such "contingency" planning, the balance struck between tax reduction and increased Government spending would be influenced by the inferences as to the relative importance to be accorded to the private sector versus the public sector—to private demand for such goods and services as food, clothing, housing, and recreation, as against public demand for roads, space exploration, public health, and social services.[18]

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16 1961 Joint Economic Report, H. Rept. 328, 87th Cong., 1st sess., pp. 119–125.

17 Cf. Joseph A. Pechman, "Financing State and Local Government," in American Bankers Association, Proceedings of a Symposium on Federal Taxation, 1965, pp. 71–84; Selma J. Mushkin and Robert F. Adams, "Emerging Patterns of Federalism," National Tax Journal, September 1966, pp. 225–247.

18 Cf., U.S. Congress, Joint Economic Committee, "Twentieth Anniversary of the Employment Act of 1946: An Economic Symposium, Invited Comments on Directions for the Future," 1966, pp. 188–189.